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SOVIET UNION - EASTERN EUROPE

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Moscow Still Trying To Get Helicopter Crewmen Out of Chinese Hands

According to a Radio Moscow commentator on March 15, the Soviet government has "recently" sought the release of the three Soviet crew members taken captive when their helicopter went down in China a year ago. This is the first indication we have had of Soviet efforts on behalf of the crew members since a broadcast last autumn reported an approach by Soviet Ambassador Tolstikov to the Chinese government in mid-October.

Moscow is clearly frustrated and embarrassed by the continued Chinese refusal to return the crew members. It has claimed that the crew lost its way while on a humanitarian mission; Peking has accused the Soviets of espionage. The Radio Moscow commentator said Peking is guilty of "provocative" behavior and of resorting to "falsifications and distortions of the true facts" in dealing with the case. The commentator said that Moscow "is doing and will do everything possible" to obtain the release of the crew members. There was no hint of any intention to use force; an intimation that occasionally appeared in private Soviet statements last year.

Peking may still have not decided what to do with the crew. Shortly after the crew was apprehended, there was a good deal of speculation, some of it fed by Chinese diplomats abroad, that Peking would put the men on trial, but senior spokesmen have never gone beyond the vague statement that the case would be handled in accordance with "Chinese law."

Peking's handling of the issue may now have become enmeshed in Chinese politics. There are

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some signs that Mao himself is concerned that his successors will backslide and temper Peking's hostility toward the USSR. Dominant elements in Peking may be awaiting an opportunity to establish a link between the crew and their political opponents.

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25X1 Failure to make progress on the helicopter issue, moreover, is in line with the continued stalemate in the border negotiations. [redacted]

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Eastern Europe: Economic Slowdown Ahead

We expect lower growth rates in Eastern Europe* for the next several years as a result of higher prices for Soviet imports and the Western inflation and recession. The timing and severity of the slowdown will depend mainly on the extent of concessions from the USSR and credits for imports from the West. The East European regimes will bend every effort to keep supplies up and prices down, but slower growth will mean the end of an era of notable advances in consumer welfare that began in the early 1970s following the disturbances in Czechoslovakia and Poland.

Purchasing power will shift from Eastern Europe to the USSR. Higher industrial costs will be a major problem now that the USSR has jumped the prices of its oil and other raw materials deliveries. Only Romania, a net exporter of petroleum, and Poland, with ample coal resources, will be relatively untouched by this development. Although the USSR is now charging its East European customers only two thirds of the world price for oil, the new pricing formula for 1976-80 means that the price almost certainly will rise further. For those years, the East Europeans have agreed to pay the USSR a price based on the average world price in the preceding five-year period. The higher costs to the East Europeans will be only partially offset by price hikes for their exports to the USSR or by Soviet concessions.

The shrinking of export markets in the West will strain Eastern Europe's hard-currency payments situation. In 1974, Romania achieved a growth of roughly

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**Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.*

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10 percent in export volume and Poland 5 percent, thanks mainly to their exports of petroleum and coal, respectively; the other countries registered little if any increase, and their terms of trade with the West worsened. Eastern Europe's hard currency trade deficit soared to $4.5 billion, compared with $2.3 billion in 1973. Poland accounted for almost half the deficit as it continued to draw heavily on its favorable credit rating in Western banking circles.

Imports from the West will level off unless additional credits are forthcoming. Much of the financing of the expected 1975 trade deficit has already been obtained in the form of syndicated Eurodollar loans and credits guaranteed by West European governments. Beyond 1975, the extent to which Eastern Europe can expand its exports to the West and find new sources of long-term financing will determine its ability to continue to increase imports from the West. Some of the best hard-currency earners--such as processed foods and low-sulfur Polish coal--may have to be partly redirected to the Soviet market.

If imports from the West must be reduced, plans for economic growth will have to be trimmed. The sectors hit hardest by cutbacks in imports would be agriculture, chemicals, metallurgy, and food processing, which rely heavily on Western technology, equipment, and basic materials. Moreover, investment would have to be diverted to such industries as textiles and other consumer goods to meet Moscow's demands for goods to pay for its higher priced raw materials.

Slower growth will mean the end of substantial gains for the consumer in Eastern Europe. The need to boost exports to both the West and the East will leave fewer goods for domestic consumption. Planners will have to slow down the growth of real income and increase some retail prices to discourage consumption of scarce commodities. Already the

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Hungarians, in January 1975, and the Poles, in February 1975, have raised retail prices for certain goods that incorporate high-priced Western materials; other countries are likely to follow their example.

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Soviets Fail To Win Jordan's Agreement on Geneva

Soviet Ambassador Vinogradov, Moscow's representative at the moribund Middle East peace conference in Geneva, has just ended what appears to be less than completely successful visit to Amman and Beirut.

Vinogradov's principal purpose in Amman was to urge the Jordanians to attend the Geneva conference. The Soviets are hoping that the conference will reconvene whether or not there is another disengagement agreement in the Sinai. They evidently believe that getting Jordan to agree to go to Geneva despite its differences with the Palestinians, would help make Geneva an attractive venue for Middle East negotiations.

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[redacted] Vinogradov may have made some progress toward improving Soviet-Jordanian relations. They took a turn for the worse last year when the Jordanians became suspicious of Soviet activity in Amman and threatened to reduce the size of the Soviet embassy. Vinogradov's visit, and that of a Soviet parliamentary delegation earlier in March, at least gave the appearance of Soviet interest in Jordan.

On his way back to Moscow, Vinogradov stopped off in Beirut to see PLO Chairman Arafat. He had some explaining to do, not only for the Soviet's newfound interest in Jordan, but for a Jordanian press article that attributed to Vinogradov a statement that the Soviets support Jordan's position on

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the West Bank issue. Press reports in Beirut indicate that Arafat told Vinogradov that the PLO opposes any tampering with Rabat resolutions.

Neither Vinogradov nor PLO spokesmen mentioned a possible Arafat trip to Moscow, which has been frequently rumored in the Arab press over the past month.

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